PLAINTIFF'S EXHIBIT
CASE NO.
EXHIBIT NO. 10

May 3, 2017

...leum Corp. (APC US)

Power **US**

Title:	APC: Forward Progress Halted		
Author:	Peter Hunsberger		
Closing Price:	56.28	**Target Price:**	
Recommendation:	Update	**Actionable:**	No

SUMMARY

APC @ $52.00/share

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In the wake of negative developments in Colorado and disappointing GOM appraisal results, APC is down 7% in trading thus far today, equivalent to a market cap loss of ~$2.2bn. From the 4/26 close, prior to first disclosure of Colorado issues, APC is down $8/share, with a market cap loss of nearly $4.5bn. Clearly there's some bad news baked into the stock. That said, we don't think the issues that have cropped up in recent days are likely to be resolved in the near term, leaving investors in an uncomfortable period of uncertainty. Two of the three areas (DJ and GOM) that APC is allocating capital to now have chinks in the armor, and the third (Permian) is still sub-scale and likely requires inorganic growth to become sufficiently material. Asset disposals have impressed year to date, but are now largely behind us. Mozambique could still be monetized, but XOM's urgency in adding to its initial buy (25% stake from Eni) is likely not high today, given the long lead times involved.

Bottom line, we expect APC shares to languish as prospects for developing DJ basin acreage are questioned and prior growth aspirations for the Gulf of Mexico are called into question. With APC back on its heels, a value-enhancing Permian acquisition seems unlikely. In an oil price recovery, APC shares could lag on these company-specific issues. Use bounces to trim positions.

COMMENTS

- Q1 results were unhelpful but probably not worth too much attention. APC missed on earnings by a wide margin, reflecting a big dry hole cost and subsequent impairment of Shenandoah, in the GOM. Production was in line, as was ebitda.

- Q2 production guidance was below consensus expectations, apparently reflecting the timing of maintenance. Full year guidance is unchanged. Still, the Q2 guide will be viewed negatively.

- Deepwater Gulf of Mexico has shifted from being a positive to a problem. The decision to impair Shenandoah (to the tune of ~$1bn) was surprising given that APC had already drilled five appraisal wells. While APC has not yet decided to relinquish the leases, it appears that management has little confidence that the project will move forward. This in turns removes an expected source of future production (and cash flow), and it raises questions about APC's ability to find new tie-back developments for its significant infrastructure in the Gulf. Unexpectedly, CEO Al Walker opined on the call that "at $50-60 oil, Gulf of Mexico development is challenged". Worrying given oil is sub-$50 today.

- In the DJ, there are more questions than answers. Beyond the discrete liabilities around the recent home explosion and

deaths near an APC-operated well, the bigger question for investors is how this incident will impact the industry's to develop its acreage in this high quality oil/gas play. There is concern that recent victories from 2016 could be reversed, with the setback distance of wells from houses being the central concern: Longer setbacks = few drillable locations = lower NAV. Oil and gas are important contributors to Colorado's revenues and GDP and employment, but this incident will raise alarms. Hard to handicap how long the regulatory uncertainty persists.

- What about management? Recall that APC made an unsolicited, private offer for Apache in November 2015, which the target rebuffed. APC shares fell sharply post disclosure of the bid, with investors questioning the logic for an APA bid: Management credibility took a hit. The stock price decline was aggravated by the coincident crash in oil prices to under $30 in January/February 2016, which put unhedged APC into a tough spot on cash flows, leading to a multi-notch downgrade from Moody's. To their credit, management was successful in managing through the crisis via a big capex cut, an 80% cut in the dividend and various asset monetizations exceeding $2.5bn in 2016. The acquisition of Freeport's deepwater GOM assets in September, together with a coincident equity issuance of $2.2bn, were seen positively by investors, and management's credibility had begun to improve. Sale of Marcellus, east Texas and Eagle Ford assets for ~$3.5bn in Q1'17 also reflected favorably on management. The Colorado and GOM issues have undermined that recovery, at least for now.

VALUATION

APC is trading at 7.5x '17 ev/ebitda at $53 WTI and at 5.8x '18 ev/ebitda at $60 WTI.

Target prices under review. Tentatively trimming base case target to $64/share, bear case target to $44/share and bull case target to $72.50/share.